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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 4, 1998

APPLICATION OF

THE POTOMAC EDISON COMPANY

CASE NO. PUE980055

To revise its cogeneration tariff  
pursuant to PURPA § 210

ORDER ESTABLISHING COGENERATION TARIFF

On January 16, 1998, the Potomac Edison Company ("Potomac Edison" or "the Company") d/b/a Allegheny Power filed an application, written testimony and exhibits in support of its request to revise the Company's Schedule CO-G, establishing payments for power purchased from cogenerators and small power producers with a design capacity of 100 kW or less. The Company proposed to eliminate capacity payments and to revise monthly customer connection charges. Potomac Edison did not propose to change the energy rates or the established fuel mixes filed with the Commission in December of 1997. There are no qualifying facilities in the Virginia jurisdiction to which this schedule would apply.

Specifically, Potomac Edison proposed its 1998 on-peak energy rates to remain at \$.01657 per kWh; its off-peak energy rate to remain at \$.01535 per kWh; and its average energy rates applicable to non-time differentiated energy purchases to remain

at \$.01600 per kWh. The Company also proposed to eliminate capacity payments and revise the monthly customer connection charges in its Schedule CO-G. The Company proposed to eliminate the payment for capacity because, in its opinion, there are no real avoidable capacity costs since service to qualifying facilities is limited to 100 kW or less.

The Commission issued an order establishing this proceeding on February 5, 1998. Therein, the Commission docketed the application, scheduled a public hearing for July 23, 1998, and established a procedural schedule for the case.

In its testimony filed on June 25, 1998, Staff concluded that the Company's forecasts of energy demand, sales, fuel prices, and avoided energy costs were reasonable. Staff also accepted Potomac Edison's energy mixes as reasonable; however, Staff added that future interim updates should reflect the energy price changes resulting from market price fluctuations. Further, Staff recommended that avoided energy mixes for five years should be included with each cogeneration filing if the planning horizon is shortened to five years. Staff also recommended use of a five-year planning horizon for consideration of avoided costs in the instant case; the provision of a supplemental capacity payment of 5 mills per kWh for firm capacity contracts in each of years 2001 and 2002 subject to the restrictions specified in Schedule CO-G; and

approval of Potomac Edison's proposed connection charges. Staff also recommended that the Commission direct the Company to advise Staff in advance should Allegheny Power decide to enter into a purchase power contract exceeding five years or to build generation to allow Staff to evaluate the appropriateness of Schedule CO-G in light of any such change.

On July 9, 1998, the Company filed its rebuttal testimony. The Company agreed to include a capacity payment to reflect any costs not included in the energy payment; however, the Company proposed the use of an alternative method to the one set forth by Staff. The Company calculated the capacity payment by averaging the costs of the Company's non-affiliated purchases over the most recent three-year period for which figures were available, correcting for losses and subtracting the energy payment included in Rate Schedule CO-G.

Staff and the Company thus agreed on the Schedule CO-G rates, and differed only on the method of calculating the capacity rate. Staff's supplemental capacity payment was based on its rough estimate of the annual levelized fixed carrying charge of a combustion turbine. The Company asserts that its most recent integrated resource plan includes no capacity additions and relies totally on power purchased from the market to meet its reserve margin. Therefore, in the Company's opinion, basing the supplemental payment on the cost of a

combustion turbine that will not be built is not appropriate. The payment calculated by the Company is approximately 4 mills per kWh. The Company, however, agreed to accept Staff's 5 mills per kWh capacity payment.

The hearing was convened on July 23, 1998, before Hearing Examiner Deborah V. Ellenberg. Counsel appearing were Philip J. Bray for Potomac Edison and Allison L. Held for the Commission's Staff. Proof of notice was admitted to the record. No intervenors or protestants participated in the case.

On October 14, 1998, the Hearing Examiner filed her Report. In her Report, the Examiner found that the Company's proposed Schedule CO-G as modified to include a supplemental capacity payment of 5 mills per kWh is just and reasonable. In her discussion, the Examiner noted that the Company's method appears to better reflect its present intention to rely on purchases. However, the Company ultimately supported the inclusion of capacity payments of 5 mills per kWh for firm capacity contracts in each of the years 2001 and 2002 to supplement energy payments. Moreover, the Examiner noted that, as a practical matter, that recommendation would have virtually no impact on the Company or ratepayers due to the 100 kW threshold limitation for the scheduled applicability. The Examiner also agreed that the Company's proposed energy rates, connection charges, avoided energy mix and fuel prices are reasonable.

There were no comments filed to the Examiner's Report.

NOW THE COMMISSION, having considered the matter, is of the opinion that the findings and recommendations of the Examiner should be accepted. Accordingly,

IT IS ORDERED THAT:

(1) Consistent with the findings referenced herein, Potomac Edison's Schedule CO-G, as modified herein, be and hereby is approved effective for purchases on and after November 11, 1998.

(2) Potomac Edison shall file within seven (7) days from the date of this Order a revised Schedule CO-G reflecting the modifications ordered herein and bearing an effective date of November 11, 1998.

(3) There being nothing further to be done herein, this matter shall be dismissed, and the papers filed herein made a part of the Commission's file for ended causes.